Hurley Medical Center

Financial Report
with Additional Information
June 30, 2008

Contents

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Independent Auditor's Report

To the Board of Hospital Managers
Hurley Medical Center

We have audited the accompanying financial statements of the business-type activities, fiduciary fund, and the discretely presented component unit of Hurley Medical Center (a component unit of the City of Flint, Michigan) as of June 30, 2008 and 2007, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, fiduciary fund and the discretely presented component unit of Hurley Medical Center at June 30, 2008 and 2007 and the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the retirement system analysis of funding progress as identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 13, 2008

GASB No. 34

Hurley Medical Center, as a component unit of the City of Flint, Michigan, has implemented the Governmental Accounting Standards Board Statement No. 34. As required by GASB No. 34, Hurley Medical Center includes Management's Discussion and Analysis in the Annual Audit Report. This section presents our discussion and analysis of Hurley Medical Center's financial performance during the fiscal year ended June 30, 2008. Readers should also read the basic financial statements and accompanying notes to enhance their understanding of the Medical Center's financial performance. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the management's discussion and analysis.

Description of Organization

Hurley Medical Center is a 443 bed teaching hospital. It is the sole provider in the region for Level I Trauma Services, Neonatal Intensive Care Unit, Burn Unit, Pediatric Intensive Care Unit, Involuntary Mental Health Unit, and Kidney Transplant Services. Additionally, Hurley has large programs in Obstetrics, Pediatrics, Oncology, Cardiology, and Surgery. As a teaching hospital, Hurley trains over 90 residents annually from both the Michigan State University and University of Michigan Medical Schools. Additionally, Hurley has a joint nursing school with the University of Michigan and several paraprofessional training schools. With over 2,400 employees, Hurley is one of the largest employers in the region.

Financial Statements

This report consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, required supplemental information, and an optional section that presents consolidating financial statements.

Included in this report are the following financial statements for Hurley Medical Center and its wholly owned subsidiary and component unit, Hurley Health Services:

1. Statements of Net Assets – Proprietary Fund
2. Statements of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund
3. Statements of Cash Flows – Proprietary Fund
4. Statement of Net Assets – Fiduciary Fund
5. Statement of Changes in Net Assets – Fiduciary Fund

These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purpose by contributors, grantors, or enabling legislation.

Condensed Financial Information (Primary Government-Hurley Medical Center Proprietary Fund)

	(In Thousands)		
	6/30/08	6/30/07	6/30/06
Non-capital assets	$169,381	$176,963	$172,810
Capital assets – net	62,988	59,931	60,762
Total assets	232,369	236,894	233,572
Current liabilities	64,441	52,947	51,811
Long-term liabilities	88,747	109,141	106,610
Total liabilities	153,188	162,088	158,421
Invested in capital assets, net of related debt	16,238	9,920	6,954
Unrestricted	58,210	60,901	64,674
Restricted	4,733	3,985	3,523
Total net assets	$ 79,181	$ 74,806	$ 75,151

	(In Thousands)		
	6/30/08	6/30/07	6/30/06
Net patient service revenue	$301,649	$286,303	$268,543
Other operating revenue	27,223	27,486	27,644
Total operating revenues	328,872	313,789	296,187
Operating expense:			
Salaries and wages	139,054	132,005	126,524
Other expenses	187,376	180,323	178,609
Total operating expenses	326,430	312,328	305,133
Net operating income	2,442	1,461	(8,946)
Nonoperating revenue (expenses) and other	1,184	(2,268)	(4,398)
Excess of revenues over expenses before net other contributions (expenses)	3,626	(807)	(13,344)
Net other contributions (expenses)	749	462	394
Changes in net assets	$ 4,375	$ (345)	$ (12,950)

Financial Highlights

Hurley Medical Center reported an increase in net assets for the fiscal year ending June 30, 2008 of $3.6 million. This is in contrast to the decrease in net assets of $807 thousand for the prior year. Patient Service Revenue increased 4.8 percent over the prior year. The increase in net assets improvement is attributed to increases in patient activity, patient acuity as measured by case mix index and continuing public agency support. During FY 2008, increased management focus on labor costs and productivity coupled with favorable experience in professional liability costs contributed to the favorable income result. During FY 2008 the Medical Center completed negotiations with each of its nine collective bargaining units. These three-year agreements will provide cost stability during the term and provides for increased employee sharing in health care costs. Non-operating income increased during the year as a result of returns from several collaborative joint ventures with area providers.

Significant Transactions

In FY 2008, the Retiree Trust Fund was determined to be irrevocable. Consequently, approximately $17 million of designated funds and related liabilities were recorded in a Fiduciary Fund beginning July 1, 2007 pursuant to GASB 34.

On April 28, 2008, Hurley Medical Center terminated an interest rate swap agreement with a notional amount of $35 million. The Medical Center was a variable pay party to the SWAP and, consequently, the termination reduced its exposure to adverse interest rate changes.

Capital Assets

During FY 2008 the Medical Center acquired capital assets totaling approximately $15 million. These acquisitions were funded from existing reserves. The focus of the capital program is to strengthen clinical operations and maintain facility infrastructure. The Cardiac catheterization lab was replaced to provide state of the art bi-plane imaging and support multi-modality vascular interventions. A 64 slice high speed CT scanner was also installed.

Long-term Debt

No additional debt was incurred during FY 2008. There was a principal payment of approximately $2.8 million on existing bonds.

Hurley Medical Center

Statement of Net Assets
Proprietary Fund

	June 30, 2008		June 30, 2007	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Assets				
Current Assets				
Cash and cash equivalents	$ 22,171,340	$ 2,633,071	$ 9,490,130	$ 3,295,650
Patient accounts receivable - Net (Note 4)	44,230,323	284,796	56,953,927	210,460
Other receivables	7,107,726	559,046	7,935,332	437,858
Assets limited as to use (Note 5)	2,950,000	264,028	3,931,428	229,724
Prepaid expenses and other	2,159,516	984,633	2,254,768	1,051,899
Inventory	3,951,254	21,741	3,634,956	19,831
Total current assets	82,570,159	4,747,315	84,200,541	5,245,422
Assets Limited as to Use (Note 5)				
By the board	66,849,496	264,028	75,178,893	229,724
Under bond indenture agreement - Held by trustee	12,205,049	-	11,773,195	-
Restricted	400,088	-	397,731	-
Total assets limited as to use	79,454,633	264,028	87,349,819	229,724
Less assets limited as to use that are required for current liabilities	(2,950,000)	(264,028)	(3,931,428)	(229,724)
Total noncurrent assets whose use is limited	76,504,633	-	83,418,391	-
Capital Assets - Net (Note 21)	62,988,132	897,980	59,931,197	977,499
Other Assets				
Investment in joint venture (Note 19)	9,121,474	7,500	7,993,436	4,500
Deferred reimbursement and defeasance loss	684,751	-	786,708	-
Bond issue costs	499,783	-	563,882	-
Other	-	150,000	-	150,000
Total assets	**$ 232,368,932**	**$ 5,802,795**	**$ 236,894,155**	**$ 6,377,421**

Statement of Net Assets
Proprietary Fund (Continued)

	June 30, 2008		June 30, 2007	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Liabilities and Fund Net Assets				
Current Liabilities				
Current portion of long-term debt and lease obligations (Notes 6 and 7)	$ 3,025,385	$ -	$ 4,100,878	$ -
Accounts payable and taxes withheld	16,679,666	157,018	15,049,630	113,884
Accrued expenses	44,735,588	1,051,664	33,796,020	1,134,756
Total current liabilities	64,440,639	1,208,682	52,946,528	1,248,640
Lease Obligations - Net of current portion (Note 7)	-	-	75,260	-
Long-term Debt - Net of current portion (Note 6)	58,946,396	-	61,694,604	-
Accrued Expenses (Note 18)	29,800,811	-	47,371,405	-
Total liabilities	153,187,846	1,208,682	162,087,797	1,248,640
Fund Net Assets				
Invested in capital assets - Net of related debt	16,237,747	897,980	9,920,059	977,499
Donor restricted for specific operating activities	4,733,434	-	3,985,169	-
Unrestricted	58,209,905	3,696,133	60,901,130	4,151,282
Total fund net assets	79,181,086	4,594,113	74,806,358	5,128,781
Total liabilities and fund net assets	**$ 232,368,932**	**$ 5,802,795**	**$ 236,894,155**	**$ 6,377,421**

See Notes to Financial Statements.

Hurley Medical Center

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund

	Year Ended			
	June 30, 2008		June 30, 2007	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Operating Revenues				
Net patient service revenue	$ 301,649,160	$ 2,135,050	$ 286,302,771	$ 2,862,052
Other operating revenue	27,222,587	19,237,489	27,486,577	18,893,352
Total operating revenues	328,871,747	21,372,539	313,789,348	21,755,404
Operating Expenses				
Salaries and wages	139,054,067	14,689,788	132,005,181	14,373,202
Employee benefits and payroll taxes	54,772,310	2,880,223	51,198,608	2,709,575
Operating supplies and expenses	43,956,719	-	39,012,934	-
Professional services and consultant fees	36,809,780	140,450	35,114,023	132,848
Purchased services and other	40,370,131	4,036,860	43,918,492	4,851,770
Depreciation and amortization	11,467,221	89,184	11,079,243	118,877
Total operating expenses	326,430,228	21,836,505	312,328,481	22,186,272
Net Operating Income (Loss)	2,441,519	(463,966)	1,460,867	(430,868)
Nonoperating Revenues (Expenses)				
Investment income and unrestricted donations	2,917,388	120,298	4,188,467	179,394
Management fees to PHO and joint venture income (expense)	2,289,892	-	(2,124,199)	(1,140,308)
Clinic purchase	-	(191,000)	-	-
Interest expense	(4,182,612)	-	(4,491,718)	-
Total nonoperating revenues (expenses)	1,024,668	(70,702)	(2,427,450)	(960,914)
Excess of Revenue Over (Under) Expenses Before Other Activity and Restricted Fund Activity and Transfer of Funds	3,466,187	(534,668)	(966,583)	(1,391,782)
Other - Assets released from restrictions for the purchase of capital assets	160,272	-	159,430	-
Excess of Revenue Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds	3,626,459	(534,668)	(807,153)	(1,391,782)
Capital Contributed Restricted Fund Activity and Transfer of Funds				
Restricted gifts and bequests	2,026,741	-	1,817,866	-
Income and investments	70,409	-	16,189	-
Transfer of funds to General Fund - Capital asset additions	(160,272)	-	(159,430)	-
Transfer of funds to General Fund - Other operating expenses	(1,188,609)	-	(1,212,498)	-
Increase (Decrease) in Net Assets	4,374,728	(534,668)	(345,026)	(1,391,782)
Fund Net Assets - Beginning of year	74,806,358	5,128,781	75,151,384	6,520,563
Fund Net Assets - End of year	**$ 79,181,086**	**$ 4,594,113**	**$ 74,806,358**	**$ 5,128,781**

Statement of Cash Flows
Proprietary Fund

	Year Ended June 30, 2008 Primary Government Hurley Medical Center	Year Ended June 30, 2008 Component Unit Hurley Health Services	Year Ended June 30, 2007 Primary Government Hurley Medical Center	Year Ended June 30, 2007 Component Unit Hurley Health Services
Cash Flow from Operating Activities				
Cash received from patients and third-party payors	$ 341,346,032	$ 21,177,015	$ 314,321,170	$ 22,207,989
Cash payments to suppliers for services and goods	(180,510,823)	(7,046,636)	(162,258,798)	(7,515,909)
Cash payments to employees for services	(139,054,067)	(14,689,788)	(132,005,181)	(14,373,202)
Net cash provided by (used in) operating activities	21,781,142	(559,409)	20,057,191	318,878
Cash Flows from Investing Activities				
Capital contributed to joint ventures	-	-	(2,475,434)	-
Distributions from joint ventures	1,600,000	-	900,000	-
Purchases of assets whose use is limited	(244,787,839)	(228,304)	(562,452,083)	113,434
Sale of assets whose use is limited	252,970,968	-	549,609,380	-
Payments on notes receivable	-	11,761	-	99,127
Interest on investments	3,012,158	120,298	3,024,231	179,394
Net cash provided by (used in) investing activities	12,795,287	(96,245)	(11,393,906)	391,955
Cash Flows from Noncapital Financing Activities				
Net proceeds from contributions restricted for specific purposes	2,026,741	-	1,817,866	-
Management fees paid	(438,146)	-	(2,245,573)	-
Net cash provided by (used in) noncapital financing activities	1,588,595	-	(427,707)	-
Cash Flows from Capital and Related Financing Activities				
Principal payment on long-term debt and capital leases	(4,100,753)	-	(3,796,408)	-
Interest paid on long-term debt	(4,386,680)	-	(4,488,246)	-
Purchase of capital assets	(15,008,381)	(11,703)	(10,963,626)	(4,987)
Proceeds from sale of assets	12,000	4,778	390,292	36,436
Net cash provided by (used in) capital and related financing activities	(23,483,814)	(6,925)	(18,857,988)	31,449
Net Increase (Decrease) in Cash and Cash Equivalents	12,681,210	(662,579)	(10,622,410)	742,282
Cash and Cash Equivalents - Beginning of year	9,490,130	3,295,650	20,112,540	2,553,368
Cash and Cash Equivalents - End of year	**$ 22,171,340**	**$ 2,633,071**	**$ 9,490,130**	**$ 3,295,650**

Statement of Cash Flows
Proprietary Fund (Continued)

	Year Ended			
	June 30, 2008		June 30, 2007	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	$ 2,441,519	$ (463,966)	$ 1,460,867	$ (430,868)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	11,467,219	89,184	11,079,243	118,877
Provision for bad debt	37,056,549	57,723	30,470,988	97,074
Amortization of bond discounts, issuance costs, other deferred charges, and deferred defeasance gain	173,387	-	314,754	-
(Gain) loss on investment in assets	242,700	(2,742)	(326,698)	221,007
Contribution released from restrictions	(1,188,609)	-	(1,212,498)	-
Changes in operating assets and liabilities:				
Receivables	(23,505,339)	(253,247)	(28,725,259)	355,511
Inventories	(316,298)	(1,910)	(344,337)	33,383
Prepaid expenses and other	95,252	55,505	93,668	138,122
Accounts payable and taxes withheld	1,630,036	43,134	(381,214)	(92,235)
Accrued expenses	(6,426,958)	(83,090)	7,629,086	(121,993)
Interest receivable on assets whose use is limited	111,684	-	(1,409)	-
Net cash provided by (used in) operating activities	**$ 21,781,142**	**$ (559,409)**	**$ 20,057,191**	**$ 318,878**
Supplemental Cash Flow Information				
Increase in investment in joint venture	$ 2,728,038	$ -	$ 121,374	$ -
Unrealized gain (loss)	(24,361)	-	1,180,425	-

Statement of Net Assets
Fiduciary Fund
June 30, 2008

	Retiree Health Benefit Trust Fund
Assets	
Cash and cash equivalents	$ 161,161
Net equity investments	16,923,143
Interest receivable	2,453
Total assets	17,086,757
Liabilities	
Accrued expenses	3,102
Total liabilities	3,102
Net Assets	
Held in trust for retiree health benefits	**$ 17,083,655**

See Notes to Financial Statements.

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
Year Ended June 30, 2008

	Retiree Health Benefit Trust Fund
Additions	
Investment income:	
Interest	$ 6,746
Dividends	215,105
Net decrease in fair value of investments	(1,926,007)
Less investment expense	(24,960)
Net investment income	(1,729,116)
Contributions:	
Employer	10,713,166
Employee	-
Total contributions	10,713,166
Total additions	8,984,050
Deductions	
Benefits payments	2,580,047
Total deductions	2,580,047
Net Increase in Net Assets Held in Trust	6,404,003
Net Assets	
Beginning of year	10,679,652
End of year	**$ 17,083,655**

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization and Reporting Entity - Hurley Medical Center (the "Medical Center") is a component unit of the City of Flint, Michigan. The Medical Center provides inpatient, outpatient, and emergency care services in Genesee and surrounding counties. As an instrumentality of a political subdivision of the State of Michigan, as described in Section 115 of the Internal Revenue Code, the Medical Center is exempt from federal income taxes.

The City of Flint Hospital Building Authority (the "Authority") is a blended component unit of the Medical Center and the City of Flint. The Authority only serves the Medical Center by facilitating the issuance of debt for certain capital improvements and equipment via a lease contract. In accordance with generally accepted accounting principles, the lease transactions between the Medical Center's and the Authority have been eliminated and all debt and related assets have been recorded in the Medical Center's financial statements.

Hurley Health Services (HHS), a municipal support organization, is a wholly owned subsidiary of the Medical Center and is reported as a component unit. HHS, on a consolidated basis, is comprised of two nonprofit entities (HHS and The Hurley Clinics (THC) and one "for profit" corporation (Hurley Practice Management Services (HPMS)).

Proprietary Fund Accounting - The Medical Center utilizes the full accrual method of accounting, whereby revenues and expenses are recognized on the accrual basis. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

Fiduciary Fund Accounting - During 2008, the Medical Center, through an independent legal interpretation, concluded that accounting for its Retiree Health Benefit Trust Fund should utilize the fiduciary fund method. The Retiree Health Benefit Trust Fund accounts for the funding and expenditures related to providing benefits to retirees. These funds accumulate resources for healthcare benefits financed by the employer. Previously, funding and expenditures related to these benefits were accounted for in the proprietary fund. The fiduciary fund also utilizes the full accrual method of accounting.

Basis of Presentation - The Medical Center follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in the presentation of its financial statements. Under GASB 34, the Medical Center is classified as a special purpose government and is required to present statements required for Enterprise Funds.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

Assets Limited as to Use - Assets limited as to use include:

- Assets set aside by the board of managers for identified purposes, over which the board retains control and may, at its discretion, subsequently use for other purposes
- Proceeds of debt issues and funds of the Medical Center deposited with a trustee and limited to use in accordance with the requirements of a bond indenture
- Assets restricted by outside donors

Investments and Investment Income - The Medical Center accounts for its investments in accordance with GASB No. 31, *Accounting for Certain Investments and for External Investment Pools*. All investments are valued at their fair values in the balance sheet except money market investments and interest earning investment contracts that have a remaining maturity of less than one year at the time of purchase. These investments are carried at amortized cost. Unrealized gains and losses are included in the statement of revenue, expenses, and changes in fund net assets as nonoperating revenues - investment income.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the self-insurance trust are reported as operating revenues - other revenue. Investment income from all other General Fund investments and investment income of endowment funds are reported as nonoperating revenue. Investment income and gains (losses) on investments of donor-restricted funds are added to (deducted from) the appropriate restricted fund balance.

The investments in joint ventures are recorded on the equity method of accounting.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Medical Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

Bond Issuance Costs - Costs related to the issuance of bonds are deferred and amortized over the life of the bonds. Costs amortized during periods of construction are added to the cost of the related projects.

Deferred Defeasance Loss - The defeasance loss associated with defeased debt is capitalized and amortized over the life of the new debt.

Capital Assets - Capital assets are stated at cost and depreciated over the estimated useful lives of the related assets. Prior to 1997, the Medical Center utilized an accelerated method of depreciation for substantially all assets. In 1997, the Medical Center switched to straight-line depreciation for all new acquisitions.

Compensated Absences - The Medical Center's employees earn vacation days at varying rates depending on years of service and job classification. Employees may accumulate vacation days up to a specified maximum. The Medical Center's policy is to accrue such unpaid vacation days as they are earned. The estimated amount of vacation days payable is reported as a current liability.

Employees of the Medical Center generally are eligible for receiving a portion of unused sick leave benefits only upon retirement, death, or duty-related disability. The Medical Center's policy is to recognize these sick leave benefits at the time an employee becomes vested for retirement or duty-related disability, or in the case of death. The estimated amount of sick leave payable for employees meeting these requirements is reported as a current liability.

Certain employee groups, however, are eligible to receive a portion of unused sick leave benefits on an annual basis. The Medical Center's policy is to accrue such unpaid sick leave benefits as they are earned. The estimated amount of sick leave payable for employees eligible to receive a portion of unused sick leave benefits on an annual basis is reported as a current liability.

Classification of Fund Net Assets - Fund net assets of the Medical Center are classified in three components. Fund net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by grantors, or contributors external to the Medical Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 75 percent of the Medical Center's revenues are based on participation in the Blue Cross/Blue Shield, Medicare, and Medicaid programs for the years 2008 and 2007.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Operating Revenues and Expenses - The Medical Center's statement of revenues, expenses, and changes in fund net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Medical Center's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Restricted Resources - When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Estimated Self-insured Malpractice Costs - The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimate for claims incurred but not reported is based on an actuarial determination.

Interest Expense - Interest expense is charged to operations as incurred, except that interest on funds borrowed for major construction projects is capitalized as a component of the cost of the related projects during the period that the borrowed funds are owed.

Income Taxes - The Medical Center and HHS are exempt from income taxes except for HHS's subsidiary, Hurley Practice Management Services. A provision for income taxes (at statutory rates) has been provided for in the financial statements related to this entity's transactions.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Nonoperating Revenues and Expenses - The Medical Center categorizes joint ventures, investment income, and operations that the Medical Center does not directly oversee as nonoperating activities.

Charity Care - The Medical Center provides care without charge to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The eligibility criteria are based on levels of income.

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30:

	2008	2007
Charges foregone, based on established rates	$ 17,719,867	$ 14,648,165
Estimated costs and expenses incurred to provide charity care	$ 6,577,615	$ 5,763,202
Equivalent percentage of charity care patients to all patients served	2.03%	1.85%

Note 3 - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services are paid on an ambulatory payment classification system or fee schedule methodology. Inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limitations.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based on a fee schedule methodology. Capital costs are paid on a cost reimbursement method.

- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on the Medicare patient classification system and on hospital-specific costs. Outpatient services are reimbursed on fee for service basis.

- **HMO/PPO** - Services rendered to HMO and PPO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. During 2007 and 2008, there was no significant impact to the net patient service revenue due to settlement activity.

Note 4 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2008 and 2007 and revenues for the years then ended include estimated amounts due from various third-party payors which are computed in accordance with their respective reimbursement formulas.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately $21,240,000 and $16,470,000 at June 30, 2008 and 2007, respectively.

Note 4 - Patient Accounts Receivable (Continued)

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percent	
	2008	2007
Medicare	19	15
Blue Cross/Blue Shield of Michigan	10	11
Medicaid	22	20
Other third-party payors and patients	49	54
Total	100	100

Note 5 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. Assets limited as to use consist of the following at June 30:

	2008	2007
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	$ 10,679,137	$ 3,786,325
U.S. government securities (cost was $24,290,286 and $46,141,097 for 2008 and 2007, respectively)	23,507,223	44,930,056
Accrued interest receivable	23,837	148,580
Total	34,210,197	48,864,961
By board for self-insurance and retirement:		
Cash and cash equivalents	16,815,235	7,756,217
U.S. government securities (cost was $15,020,959 and $10,789,407 for 2008 and 2007, respectively)	15,418,227	10,706,269
Mutual funds (cost was $214,812 and $6,785,604 for 2008 and 2007, respectively)	221,912	7,724,403
Accrued interest receivable	183,925	127,043
Total	32,639,299	26,313,932
Total board designated	$ 66,849,496	$ 75,178,893
	2008	2007

Note 5 - Assets Limited as to Use (Continued)

	2008	2007
Under bond indenture agreement - Held by trustee:		
Cash and cash equivalents	$ 9,377,839	$ 8,857,029
U.S. government securities (cost was $2,668,155 and $2,736,110 for 2008 and 2007, respectively)	2,741,000	2,810,000
Accrued interest receivable	86,210	106,166
Total	$ 12,205,049	$ 11,773,195
Restricted - Cash and cash equivalents	$ 400,088	$ 397,731

HHS assets limited as to use include a certificate of deposit used to secure the letter of credit disclosed in Note 6.

Note 6 - Lease Purchase Commitments and Long-term Debt

A summary of lease purchase commitments and long-term debt at June 30, 2008 and 2007 follows:

	2008	2007
Lease purchase contract, revenue refunding bonds, Series 1998A, with annual payments ranging from $710,000 in 2009 to $1,315,000 in 2021, plus interest at 4.8 percent to 5.375 percent through 2021	$ 12,770,000	$ 13,445,000
Lease purchase contract, revenue refunding bonds Series 1998B, with annual payments ranging from $465,000 in 2009 to $1,320,000 in 2029, plus interest at 4.65 percent to 5.375 percent through 2029	17,245,000	17,685,000
Lease purchase contract, revenue refunding bonds, Series 2003, with annual payments ranging from $1,775,000 in 2009 to $3,550,000 in 2021, plus interest at 5.5 to 6.0 percent through 2021	33,320,000	35,000,000
Total	63,335,000	66,130,000
Less unamortized bond discount	1,438,604	1,640,396
Less current portion	2,950,000	2,795,000
Long-term portion	$ 58,946,396	$ 61,694,604

Note 6 - Lease Purchase Commitments and Long-term Debt (Continued)

The following is a reconciliation of the future principal and interest payment to the recorded liability at June 30, 2008:

Years Ending June 30		
2009		$ 6,383,869
2010		6,361,219
2011		6,353,225
2012		6,334,887
2013		6,329,775
Thereafter		58,485,236
	Total	90,248,211
	Less amount representing interest	(26,913,211)
	Total lease purchase commitments and long-term debt	$ 63,335,000

The revenue refunding bonds are payable from the revenues of the Medical Center pursuant to lease/purchase agreements between the Medical Center and the City of Flint Building Authority. Under terms of the lease/purchase agreements, the Medical Center transferred title to substantially all of its facilities to the Authority and leases such facilities from the Authority. Ownership of the facilities reverts to the Medical Center upon payment of the bonds. Rental payments to the Authority are equal to the amounts required to make principal and interest payments on the bonds. Approximately half of the proceeds from the 2003 bonds were utilized to refund pre-existing bond debt.

The net revenues of the Medical Center are pledged for payment of principal and interest on the variable rate demand revenue rental and revenue refunding bonds. Accordingly, the financial statements of the Medical Center include the facilities as if owned by the Medical Center and the bonds as if issued by the Medical Center.

The lease purchase agreements contain certain restrictive covenants, including maintaining a certain minimum debt service ratio.

The Medical Center had an interest rate swap agreement with a swap provider. The interest rate swap agreement was terminated on April 30, 2008. Unrealized losses on the swap agreement of $0 and $1,360,492 at June 30, 2008 and 2007, respectively, have not been recorded in accordance with governmental accounting standards.

HHS has an unused irrevocable letter of credit of $255,722 and $222,000 as of June 30, 2008 and 2007, respectively, that is collateralized by a certificate of deposit.

Note 7 - Lease Obligations

The Medical Center has capital lease agreements for equipment expiring in 2009 and for software that expired in 2007. The equipment and software have been capitalized and the related obligation recorded using the interest rate implicit in the lease. The assets are being depreciated over their useful lives. Capital assets include the following amounts as of June 30, 2008 and 2007:

	2008	2007
Equipment	$ 539,606	$ 539,606
Less accumulated depreciation	(539,606)	(483,271)
Net carrying amount	$ -	$ 56,335

The Medical Center also has two sale-leaseback agreements with a bank for equipment expiring in 2008 and 2009. The equipment has been capitalized and the related obligation recorded using the interest rate implicit in the lease. The assets are being depreciated over their useful lives. The sale-leaseback agreements contain restrictive covenants concerning minimum cash flow, minimum total and pledged liquid assets, minimum unrestricted net assets, and maximum liabilities to net asset ratio requirements.

The following is a reconciliation of the future minimum lease payments to the recorded liability at June 30, 2008:

Year Ending June 30		Amount
2009		$ 75,539
	Total future minimum lease payments	75,539
	Amount representing interest	(154)
	Total obligation under capital leases	75,385
	Less current portion	75,385
	Long-term obligations under capital leases	$ -

Note 8 - Retirement Plans

Significant details regarding the Medical Center's retirement plans are presented below:

Description of Plans

The Medical Center contributes to the City of Flint Employees Retirement System, which is a single-employer public employee retirement system (PERS). It is the responsibility of the City of Flint PERS to function as an investment and administrative agent for the Medical Center with respect to the pension plans. The City of Flint PERS was established by City ordinance and is administered by a board of trustees. Investments of the City of Flint PERS are made through JP Morgan Chase Trust Department and the Northern Trust Company. The PERS does not issue a separate stand alone financial statement.

The Medical Center has three plan options covering substantially all employees of the Medical Center. The basic plan option, which is the Old Contributory Pension Plan (OCPP), provides for employer contributions, as well as requiring employee contributions based upon a percent of pay. Benefits fully vest after 15 years of service or at 55 with 10 years of service. Under OCPP, employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The lifetime monthly retirement benefit under OCPP is the participant's final average compensation (which is the average of the highest five out of the last 10 years of credited service) times 2 percent of the first 25 years of credited service and 1 percent for every year thereafter.

A second plan option is the Modified Contributory Pension Plan (MCPP) which provides for employer contributions, as well as requiring employee contributions, based upon a percent of pay, but at rates higher than those required under OCPP. Benefits fully vest after 15 years of service or at age 55 with 10 years of service. Employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credits service. The lifetime monthly retirement benefit under MCPP is the participant's final average compensation (which is the average of the highest three out of the last five years of credited service) times 2 percent of the first 15 years of credited service, plus 2.2 percent of the next 10 years of credited service, and 1 percent of every year of credited service beyond year 25.

A third plan option is the Hurley Alternative Pension Plan (HAPP) which provides for only an employer contribution and no employee contribution. Benefits fully vest after 10 years of credited service and a normal retirement age of 60. There are provisions for early retirement at age 55 with a reduced benefit (based upon actuarial assumptions to reflect the additional years of benefit payments). The lifetime monthly retirement benefit under HAPP is the participant's final average compensation (which is the average of the highest five out of the last 10 years of credited service) times 1.5 percent for all years of credited service.

Note 8 - Retirement Plans (Continued)

Benefit provisions are authorized by contract.

Nonexempt employees (members of bargaining units) may participate in either MCPP or HAPP. Exempt employees may participate in only one of any of the three plans (MCPP, HAPP, or OCPP).

Funding Policy - Employee contributions

	Exempt	Nonexempt
OCPP	3.75% of first $4,200 of compensation and 5.75% on compensation over $4,200	Not eligible
MCPP	4.5% of first $4,200 of compensation plus 6.5% of compensation over $4,200	7% of pay
HAPP	None	None

The Medical Center makes employer contributions in accordance with funding requirements determined by an independent actuary. If a member leaves service, he or she may withdraw his or her employee contributions together with interest.

Actuarial Assumption

The information presented in the required supplementary schedules was determined as a part of the actuarial valuation made at June 30, 2006.

Valuation date	June 30, 2006
Actuarial cost method	Individual entry age
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Actuarial assumption:	
Investment rate of return	8.00%
Projected salary increases	3.95%-7.55%
Includes wages inflation at	3.75%
Cost of living adjustments	None

Note 8 - Retirement Plans (Continued)

Annual Pension Cost

Three-year trend information regarding the annual pension cost (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized as follows:

Fiscal Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation at June 30	Annual Required Contribution (ARC) Rate as a Percent of Covered Payroll
6/30/08	6/30/06	$10,926,397	29.9%	$16,516,981	9.70%
6/30/07	6/30/05	$9,758,172	90.4%	$8,729,795	9.49%
6/30/06	6/30/04	$8,965,839	13.1%	$7,790,552	8.00%

During the fiscal year ended June 30, 2004, seven of nine employee unions plus the exempt employees voted to change participation from the City of Flint PERS to the Michigan Municipal Public Employees Retirement System (MERS). As of June 30, 2008, no transfers of pension funds have been made from the City of Flint PERS to MERS. Contributions of $3,265,764 and $8,818,057 were made to the MERS plan by the Medical Center during 2008 and 2007, respectively. The annual contribution rate for MERS payroll used by the Medical Center in 2008 and 2007 was 9.7 and 8.6 percent, respectively.

As of June 30, 2008 and 2007, $14,834,000 and $9,504,000, respectively, of the net pension obligation represents pension cost from the years 2007 and 2006 that has not yet been remitted to PERS.

As of June 30, 2006, the most recent actuarial valuation date, the plan was 75.2 percent funded. The actuarial accrued liability for benefits was $459,693,895, and the actuarial value of assets was $345,781,209, resulting in an unfunded actuarial accrued liability (UAAL) of $113,912,686. The covered payroll (annual payroll of active employees covered by the plan) was $104,097,308, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 109.4 percent. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 9 - Defined Contribution Plan

The Medical Center has a defined contribution plan for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5 percent of the employee's annual compensation. Each employee's interest is vested as specified in the plan. Pension expense included in the statement of revenues, expenses, and changes in fund net assets was $817,182 and $691,163 for the years ended June 30, 2008 and 2007, respectively.

Note 10 - Profit-sharing and 403(b) Retirement Plan

HHS has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to 15 percent of their salary. HHS may make a discretionary contribution. HHS's contributions to the 401(k) plan were $46,370 and $46,588 for 2008 and 2007, respectively.

HHS also maintains two tax-deferred annuity plans under section 403(b) of the internal Revenue Code. Under the plans, HHS and THC employees may elect to defer up to a specified percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS's contributions to the 403(b) plans amounted to $301,983 and $301,581 for 2008 and 2007, respectively.

Note 11 - Leases

Hurley Medical Center and Hurley Health Services lease office space under various operating leases. Certain operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. Total rent expense under these leases for Hurley Medical Center was $1,647,236 and $1,711,371 for the years ended June 30, 2008 and 2007, respectively. Total rent expense under these leases for Hurley Health Services was $872,494 and $900,441 for the years ended June 30, 2008 and 2007, respectively, including rental payments to Hurley Medical Center of $452,185 and $451,591 for the years ended June 30, 2008 and 2007, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2009	$ 1,565,247	$ 727,898
2010	1,267,948	632,560
2011	874,918	589,580
2012	452,115	587,964
2013	266,427	530,371
Thereafter	666,365	2,441,985
Total minimum payments required	$ 5,093,020	$ 5,510,358

Note 12 - Contingencies

Malpractice claims have been asserted against the Medical Center by various claimants. The claims are in various stages of assertion, including some that have been brought to trial. Counsel is unable to conclude about the ultimate outcome of the actions; however, it is probable that certain actions will result in unfavorable settlements for the Medical Center. There also are known incidents, which occurred through June 30, 2008, that may result in the assertion of additional claims. Management is of the opinion that the settlement of those claims probable of unfavorable outcome, as well as the settlement, if any, of such other asserted and unasserted claims, are within the amount of liability accrued for unpaid claims, as disclosed in Note 19. Consequently, management believes that such settlements will not significantly affect the Medical Center's financial results. The Medical Center maintains an irrevocable trust to be used for the payment of settlements. The Medical Center funds the trust based upon an annual actuarial determination. The Medical Center purchased a stop-loss insurance policy relating to malpractice claims, which will limit the future claims that will be paid from the irrevocable trust.

There are various legal actions pending against HHS, its subsidiaries, and certain employees. Due to the inconclusive nature of these actions, it is not possible for legal counsel of HHS to determine in the aggregate either the probable outcome of these actions or a reasonable estimate of HHS's ultimate liability, if any. HHS maintains what it believes to be adequate coverage of malpractice, errors and omissions, and directors and officers insurances to cover any possible claims.

Note 13 - Commitments

As of June 30, 2008, HPMS is contingently liable as guarantor with respect to 50 percent of $3,467,952 of indebtedness of Hurley/Binson's Medical Equipment, Inc. Hurley Practice Management Services owns 50 percent of Hurley/Binson's Medical Equipment, Inc. The book value of the investment is $0 at June 30, 2008 and 2007. As of June 30, 2007, HPMS had written off the investment in Hurley/Binson's Medical Equipment, Inc. due to continuing operating losses. No material loss is anticipated by reason of such guarantee. There are no recourse rights in the event of default by Hurley/Binson's Medical Equipment, Inc.

The future minimum payments related to the above debt are: 2009 - $2,828,624; 2010 - $84,000; 2011 - $84,000; and 2012 - $471,328.

Note 14 - Conditional Asset Retirement Obligations

The Medical Center has an obligation related to the removal of asbestos within various buildings on campus upon reconstruction, demolition, or abandonment of the buildings. The Medical Center has not recorded a liability related to the potential costs associated with the asbestos abatement, as the amount of the liability cannot currently be reasonably estimated. In addition, the range of time over which the Medical Center may settle the obligation is unknown and cannot be estimated. The Medical Center currently has no plans or expectation of plans to undertake a major renovation that would require the removal of the asbestos or demolition of the buildings. The Medical Center will recognize a liability in the period sufficient information is available to reasonably estimate the amount of the liability.

Note 15 - Other Post Employment Benefits Plan

Effective for retirements on or after July 1, 1983, Hurley Medical Center provides a portion of health insurance premiums for retired employees. The Medical Center has set aside assets in an irrevocable trust account to be used for payment of its portion of health insurance premiums for retired employees. Funding and expenditures prior to July 1, 2007 have been reported in the proprietary fund statements. Accrued costs charged to expense in 2007 were $6,013,411. Beginning in 2008, the activity is reported in the fiduciary fund statements.

Plan Description - The Medical Center provides retiree health care benefits to eligible employees and their spouse through the Retiree Health Benefit Plan. Retired exempt employees receive full or partial coverage, depending on date of employment at no cost to the retiree. Retired non-exempt employees pay the full amount or a portion of the premium. No payment is made if the retired employee is covered under other employment. The number of participants eligible to receive benefits was 548 and 598 at June 30, 2008 and 2007, respectively.

This is a single employer defined benefit plan administered by the Medical Center. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the Plan through employer contributions.

Note 15 - Other Post Employment Benefits Plan (Continued)

Funding Policy - The Medical Center has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). However, as shown below, the Medical Center has made contributions to advance-fund these benefits, as determined by an actuarial valuation. The costs of administering the plan are borne by the Medical Center's proprietary fund. For the year ended June 30, 2008, the Medical Center has estimated the cost of providing retiree health care benefits through an actuarial valuation as of June 30, 2005. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows for the year ended June 30, 2008:

Annual required contribution	$ 7,799,755
Amount contributed	$ 7,799,755
Percentage contributed	100%
Net OPEB obligation	$ -0-

Actuarial methods and assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 15 - Other Post Employment Benefits Plan (Continued)

In the June 30, 2005 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Medical Center's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 3.75 percent after ten years. Both rates included a 3.75 percent inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 30 years.

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2005	
Actuarial value of assets	$ 3,900,000
Actuarial accrued liability	$ 85,218,296
Unfunded AAL	$ 81,318,296
Funded ratio	5
Annual covered payroll	$ 135,946,295
Ratio of UAAL to covered payroll	60

Note 16 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The retiree healthcare fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed $250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

Note 16 - Deposits and Investments (Continued)

The Medical Center has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items listed above. The Medical Center's deposits and investment policies are in accordance with statutory authority.

The Medical Center's deposits consist of checking and savings accounts and money market funds. At year end, the carrying amount of the Medical Center's deposits was $24,382,196 (excluding petty cash of $14,267), and the bank balance was $44,014,755. Of the bank balance, $400,000 was covered by federal depository insurance. The bank balance includes $40,395,090 of money market funds that are collateralized by securities not in the name of the Medical Center. The rest of the bank balance, or $3,219,665, was not insured or collateralized.

HHS deposits consist of checking accounts and money market funds. Deposits are recorded on the financial statements as cash and cash equivalents. At year end, the carrying amount of HHS's deposits (excluding petty cash) was $2,632,091 and the bank balance was $2,906,897. The bank balance was higher than the carrying value due to outstanding checks that had not yet cleared the bank at June 30, 2008. Of the bank balance, $125,789 was covered by federal depository insurance.

The Medical Center's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, Medical Center's deposits may not be returned to it. At year end, the Medical Center had $4,828,300 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Medical Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Medical Center evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 16 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Medical Center has a deposit policy for custodial credit risk that requires the safekeeping agent to undergo an annual evaluation of creditworthiness by the chief investment officer through the review of its annual financial statements and/or the use of credit rating agencies. The safekeeping agent is a member of the Securities Investor Protection Corporation (SIPC). Securities held in the safekeeping account are insured up to $500,000 and cash is insured to $100,000 through this program.

At year end, the balance of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Medical Center's name as follows:

	Carrying Value		
Type of investment	2008	2007	How Held
U. S. government or agency bonds	$ 19,678,747	$ 14,985,737	Counterparty trust dept
U. S. government or agency bonds	-	11,876,750	Counterparty
Commercial paper	2,003,359	1,918,926	Counterparty trust dept
Commercial paper	-	7,994,300	Counterparty
Repurchase agreement	19,782,676	7,068,925	Counterparty

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy indicates that no investment shall have, at the time of purchase, an average life of more than five years. Investments other than mortgage-backed securities may not have a maturity of more than 10 years. At year end, the average maturities of investments are as follows:

	Fair Value		
Investment	2008	2007	Weighted Average Maturity
U. S. government or agency bonds	$ 19,733,094	$ 26,921,967	3.5 years
U. S. government CMOs	19,929,997	24,535,546	less than one year
Commercial paper	2,003,359	21,575,748	less than one year
Repurchase agreement	19,782,676	7,068,925	less than one year

Note 16 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Medical Center has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value 2008	Fair Value 2007	Rating	Rating Organization
U. S. government or agency bonds	$ 11,063,857	$ 20,730,073	AAA	Standards & Poors
U. S. government CMOs	19,929,997	21,575,748		Not rated
Commercial paper	2,003,359	9,913,226	A1+	Standards & Poors
Repurchase agreement	19,728,676	7,068,925		Not rated

Concentration of Credit Risk

The Medical Center's investment policy limits any single investment to 10 percent of the portfolio, with the exception of cash or U.S. Treasuries, and further restricts that combined mortgage-backed securities may not exceed 50 percent of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2008 and 2007.

Note 17 - Long-term Debt

Changes in the Medical Center's long-term debt (which is detailed in Note 6) and lease obligations (which are detailed in Note 7) for the year ended June 30, 2008 are as follows:

	2007	Current Year Additions	Current Year Reductions	2008	Amounts Due Within One Year
Series 1998A	$ 13,445,000	$ -	$ (675,000)	$ 12,770,000	$ 710,000
Series 1998B	17,685,000	-	(440,000)	17,245,000	465,000
Series 2003	35,000,000	-	(1,680,000)	33,320,000	1,775,000
Unamortized bond discount	(1,640,396)	201,792	-	(1,438,604)	-
Total long-term debt	64,489,604	201,792	(2,795,000)	61,896,396	2,950,000
Capital lease obligations	1,381,138	-	(1,305,753)	75,385	75,385
Total noncurrent liabilities	$65,870,742	$ 201,792	$ (4,100,753)	$ 61,971,781	$ 3,025,385

Note 17 - Long-term Debt (Continued)

Changes for the year ended June 30, 2007 were as follows:

	2006	Current Year Additions	Current Year Reductions	2007	Amounts Due Within One Year
Series 1995A	$ 1,130,000	$ -	$ (1,130,000)	$ -	$ -
Series 1998A	14,090,000	-	(645,000)	13,445,000	675,000
Series 1998B	18,105,000	-	(420,000)	17,685,000	440,000
Series 2003	35,000,000	-	-	35,000,000	1,680,000
Unamortized bond discount	(1,852,063)	211,667	-	(1,640,396)	-
Total long-term debt	66,472,937	211,667	(2,195,000)	64,489,604	2,795,000
Capital lease obligations	2,982,546	-	(1,601,408)	1,381,138	1,305,878
Total noncurrent liabilities	$ 69,455,483	$ 211,667	$ (3,796,408)	$ 65,870,742	$ 4,100,878

Note 18 - Risk Management

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established a trust to assist in accumulating resources to fund excess insurance premiums and to pay claims.

The Medical Center's self-insured retention is $6 million for the first annual occurrence and $4 million for each additional occurrence annually with excess claims-made coverage up to $15 million annually. Claims in excess of $15 million are to be covered by the Medical Center. The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims.

Changes in the aggregate liabilities for claims and defense costs payable for the past two years were as follows:

	2008	2007
Estimated liability - Beginning of year	$ 35,022,210	$ 32,996,608
Increase in claims liability	2,268,354	7,674,016
Defense costs and other fund expenses	(1,341,602)	(1,427,357)
Excess insurance premium payments	(1,756,455)	(1,652,300)
Claims paid	(1,547,500)	(2,568,757)
Estimated liability - End of year	$ 32,645,007	$ 35,022,210

Note 18 - Risk Management (Continued)

Professional liability for claims are reported in accrued expenses, both current and long-term, on the balance sheet. The carrying amount of the insurance trust assets (at market) amounted to $16,966,665 and $15,247,738 at June 30, 2008 and 2007, respectively.

Note 19 - Joint Ventures

Hurley Medical Center participates in five privately held joint ventures: Greater Flint Area Hospital Imaging Center, Inc. (GFAHIC), Flint Health Systems Imaging Center, Inc. (FHSIC), HGH, Inc. (HealthPlus Partners), Hurley PHO of Mid-Michigan, and Genesys Hurley Cancer Institute. Each corporate joint venture is recorded in the financial statements in accordance with Accounting Principles Board Statement 18 on the equity method of accounting.

GFAHIC and FHSIC provide magnetic resonance imaging (MRI) services to the greater Flint and Genesee Count community. The ownership of both corporations is allocated between Hurley Medical Center, Genesys Regional Medical Center, and McLaren Regional Medical Center. The joint venture provides that each participant shares in the annual earnings or losses of the corporations. The net investment by the Medical Center at June 30, 2008 and 2007 was $3,347,319 and $3,618,462, respectively. A total of $1,600,000 and $900,000 was distributed to the Medical Center during the years ended June 30, 2008 and 2007, respectively.

HGH, Inc., is a joint venture among Hurley Medical Center, HealthPlus of Michigan, Inc., Genesys Regional Medical Center, and Memorial Health Care Center. The venture was established during 1995 to provide a methodology to enroll Medicaid patients in the statewide managed care initiative for Medicaid. The arrangement provides that the three entities will share in the income or losses of the joint venture. The Medical Center has a negative net investment (obligation) of $(258,060) at June 30, 2006. During 2007, the Medical Center contributed capital of $2,475,434 to pay outstanding claims. During 2008, the Medical Center received approximately $911,000 for settlement of the joint venture. The net investment by the Medical Center was zero at June 30, 2008 and 2007. This joint venture ceased operations as of December 31, 2005.

Hurley PHO of Mid-Michigan is a joint venture between Hurley Medical Center and its medical staff. The venture was established during 1997 to provide vertically integrated continuous care which will facilitate the Medical Center participating in managed care contracts in the future. The Medical Center's net investment at June 30, 2008 and 2007 was $742,665 and $639,669, respectively. The arrangement provides that the Medical Center will be allocated 50 percent of the income or losses of the joint venture. At June 30, 2008, the Medical Center has established an allowance of $500,000 for this investment for a net investment totaling $242,665.

Note 19 - Joint Ventures (Continued)

Genesys Hurley Cancer Institute is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001 to provide outpatient oncology services, including laboratory, and radiation oncology. The Medical Center's net investment at June 30, 2008 and 2007 was $5,531,490 and $3,735,305, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture.

HPMS has a 50 percent ownership in Hurley/Binson's Medical Equipment, Inc. The Medical Center's net investment at June 30, 2008 and 2007 was $0. Investment loss recognized in the years ended June 30, 2008 and 2007 using the equity method was $0 and $1,140,308, respectively.

Note 20 - Related Party Transactions

The Medical Center pays subsidies and management fees for services rendered by HHS to the Medical Center. Management fees and contributions from the Medical Center to HHS for the years ended June 30, 2008 and 2007 amounted to $17,648,915 and $17,625,222, respectively, of which $16,299,626 and $15,326,105, respectively, is staff and service contracts and $1,349,289 and $2,299,117, respectively, is network management fees. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2008 and 2007 amounted to $799,813 and $858,604, respectively.

As of June 30, 2008 and 2007, the Medical Center had accounts receivable from HHS of $42,105 and $36,990, respectively, and accounts payable to HHS of $446,318 and $388,297, respectively.

Included in other operating revenues of HHS are management fees and marketing fees for services rendered paid by Hurley/Binson's Medical Equipment, Inc., a related party to HPMS. Management fee and marketing income from Hurley/Binson's Medical Equipment, Inc. for the years ended June 30, 2008 and 2007 amounted to $0 and $84,000. There were no accounts receivable from Hurley/Binson's Medical Equipment at June 30, 2008 and 2007. HPMS and HHS purchase courier services from Hurley/Binson's Medical Equipment, Inc. in the amount of $239,773 annually.

Note 21 - Capital Assets

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2008 are summarized below:

	2007	Additions	Disposals and Transfers	2008
Land	$ 3,889,863	$ 68,550	$ -	$ 3,958,413
Land improvements	1,951,223	42,878	(15,382)	1,978,719
Buildings:				
Medical Center building	112,364,498	3,715,462	(1,979,457)	114,100,503
Parking structure	5,561,836	6,496	(9,497)	5,558,835
Nurses' residence	1,725,380	3,847	-	1,729,227
Interns' apartment	303,482	-	(7,895)	295,587
Prospect street apartments	1,253,073	-	-	1,253,073
Power plant	3,473,471	54,195	-	3,527,666
Rental property	350,497	-	-	350,497
Health and fitness center	4,565,319	11,200	-	4,576,519
Park Plaza	1,258,501	6,033	-	1,264,534
Physicians' office building	336,566	-	-	336,566
Northpointe Clinic	1,782,868	7,449	-	1,790,317
Davison Clinic	1,945,411	11,360	-	1,956,771
Longway Eastside Campus building	3,494,888	148,868	-	3,643,756
MOB Building	-	18,549	-	18,549
Fenton Medical Center	-	35,337	-	35,337
Machinery and equipment	90,963,440	8,842,013	(10,841,027)	88,964,426
Automotive equipment	249,538	48,950	-	298,488
Construction in progress	2,569,892	15,126,937	(13,139,741)	4,557,088
Total	238,039,746	28,148,124	(25,992,999)	240,194,871

Note 21 - Capital Assets (Continued)

	2007	Additions	Disposals and Transfers	2008
Less accumulated depreciation:				
Land improvements	$ 1,744,409	$ 31,197	$ (15,072)	$ 1,760,534
Buildings:				
Medical Center building	90,873,656	3,122,955	(1,772,971)	92,223,640
Parking structure	4,515,707	138,928	(8,899)	4,645,736
Nurses' residence	1,440,853	38,372	-	1,479,225
Interns' apartment	287,008	3,898	(7,895)	283,011
Prospect street apartments	1,210,631	20,647	-	1,231,278
Power plant	2,066,988	118,605	-	2,185,593
Rental property	345,096	1,602	-	346,698
Health and fitness center	3,857,743	202,132	-	4,059,875
Park Plaza	1,038,634	26,143	-	1,064,777
Physicians' office building	264,426	13,552	-	277,978
Northpointe Clinic	563,187	51,162	-	614,349
Davison Clinic	548,583	59,215	-	607,798
Longway Eastside Campus building	800,765	133,541	-	934,306
MOB Building	-	618	-	618
Fenton Medical Center	-	1,606	-	1,606
Machinery and equipment	68,348,776	7,490,881	(10,564,192)	65,275,465
Automotive equipment	202,087	12,165	-	214,252
Total	178,108,549	11,467,219	(12,369,029)	177,206,739
Net carrying amount	$ 59,931,197	$ 16,680,905	$ (13,623,970)	$ 62,988,132

Note 21 - Capital Assets (Continued)

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2007 are summarized below:

	2006	Additions	Disposals and Transfers	2007
Land	$ 3,816,016	$ 73,847	$ -	$ 3,889,863
Land improvements	1,790,418	160,805	-	1,951,223
Buildings:				
Medical Center building	107,711,086	4,936,149	(282,737)	112,364,498
Parking structure	5,553,846	7,990	-	5,561,836
Nurses' residence	1,725,380	-	-	1,725,380
Interns' apartment	303,482	-	-	303,482
Prospect street apartments	1,253,073	-	-	1,253,073
Power plant	3,452,021	21,450	-	3,473,471
Rental property	350,497	-	-	350,497
Health and fitness center	4,565,319	-	-	4,565,319
Park Plaza	1,258,501	-	-	1,258,501
Physicians' office building	336,566	-	-	336,566
Northpointe Clinic	1,782,868	-	-	1,782,868
Davison Clinic	1,905,257	40,154	-	1,945,411
Longway Eastside Campus building	4,155,269	40,275	(700,656)	3,494,888
Machinery and equipment	91,214,512	6,074,923	(6,325,995)	90,963,440
Automotive equipment	257,864	-	(8,326)	249,538
Construction in progress	2,961,855	10,963,630	(11,355,593)	2,569,892
Total	234,393,830	22,319,223	(18,673,307)	238,039,746
Less accumulated depreciation:				
Land improvements	1,595,969	148,440	-	1,744,409
Buildings:				
Medical Center building	88,057,645	3,086,958	(270,947)	90,873,656
Parking structure	4,441,923	73,784	-	4,515,707
Nurses' residence	1,402,495	38,358	-	1,440,853
Interns' apartment	283,040	3,968	-	287,008
Prospect street apartments	1,187,746	22,885	-	1,210,631
Power plant	1,918,217	148,771	-	2,066,988
Rental property	342,516	2,580	-	345,096
Health and fitness center	3,655,831	201,912	-	3,857,743
Park Plaza	1,012,767	25,867	-	1,038,634
Physicians' office building	250,074	14,352	-	264,426
Northpointe Clinic	512,069	51,118	-	563,187
Davison Clinic	489,961	58,622	-	548,583
Longway Eastside Campus building	808,745	152,558	(160,538)	800,765
Machinery and equipment	67,475,390	7,036,865	(6,163,479)	68,348,776
Automotive equipment	197,371	12,209	(7,493)	202,087
Total	173,631,759	11,079,247	(6,602,457)	178,108,549
Net carrying amount	$ 60,762,071	$ 11,239,976	$ (12,070,850)	$ 59,931,197

Note 21 - Capital Assets (Continued)

Capital asset activity for the Hurley Health Services for June 30, 2008 was as follows:

	2007	Additions	Disposals and Transfers	2008
Leasehold improvements	$ 972,811	$ -	$ -	$ 972,811
Equipment and furnishings	1,588,756	11,704	(11,715)	1,588,745
Total	2,561,567	11,704	(11,715)	2,561,556
Less accumulated depreciation:				
Leasehold improvements	298,062	58,381	-	356,443
Equipment and furnishings	1,286,006	30,803	(9,676)	1,307,133
Total	1,584,068	89,184	(9,676)	1,663,576
Net carrying amount	$ 977,499	$ (77,480)	$ (2,039)	$ 897,980

Capital asset activity for Hurley Health Services for June 30, 2007 was as follows:

	2006	Additions	Disposals and Transfers	2007
Leasehold improvements	$ 1,212,009	$ -	$ (239,198)	$ 972,811
Equipment and furnishings	2,054,259	4,988	(470,491)	1,588,756
Total	3,266,268	4,988	(709,689)	2,561,567
Less accumulated depreciation:				
Leasehold improvements	347,357	34,208	(83,503)	298,062
Equipment and furnishings	1,570,080	84,678	(368,752)	1,286,006
Total	1,917,437	118,886	(452,255)	1,584,068
Net carrying amount	$ 1,348,831	$ (113,898)	$ (257,434)	$ 977,499

Required Supplemental Information

Hurley Medical Center Division
City of Flint Employees Retirement System
Required Supplemental Information
Analysis of Funding Progress

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Attained Age (AAL)(b)	(Unfunded) Over Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as Percent of Payroll (b-a)(c)
6/30/99	12/31/97	$ 301,060,938	$ 259,985,429	$ 41,075,509	115.8	$ 87,651,874	-
6/30/00	12/31/98	322,497,186	281,563,941	40,933,245	114.5	96,417,303	-
6/30/01	12/31/99	340,608,779	306,134,487	34,474,292	111.3	107,246,608	-
6/30/02	12/31/00	354,306,658	328,489,881	25,816,777	107.9	105,102,019	-
6/30/03	12/31/01	367,058,240	333,802,804	33,255,436	110.0	103,411,340	-
6/30/04	12/31/02	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/05	12/31/02	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/06	6/30/04	338,311,878	430,746,829	(92,434,951)	78.5	110,096,227	84.0
6/30/07	6/30/05	341,965,387	431,927,509	(89,962,122)	79.2	108,969,869	82.6
6/30/08	6/30/06	345,781,209	459,693,895	(113,912,686)	75.2	104,097,308	109.4

Additional Information

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To the Board of Hospital Managers
Hurley Medical Center

We have audited the financial statements of the business-type activities, fiduciary fund, and the discretely presented component unit of Hurley Medical Center (a component unit of the City of Flint, Michigan) as of and for the years ending June 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The consolidating schedules have been subjected to the tests and other auditing procedures applied in the audits of the financial statements mentioned above and, in our opinion, are fairly stated in all respects material in relation to the financial statements taken as a whole, except said presentation includes certain departures from accounting principles under the Governmental Accounting Standards Board statements, as described below, but is intended to be a presentation comparable to hospital industry practices for not-for-profit healthcare providers.

The primary differences are in the presentation of financial statements on a consolidated basis for the Medical Center and its component unit, reflecting the equity investment in the component unit as an asset of the Medical Center, reflecting the provision for uncollectible accounts as an operating expense rather than as a reduction in net patient service revenues, and reflecting interest expense as an operating expense in the consolidating statement of revenues, expenses, and changes in fund net assets.

Plante & Moran, PLLC

October 13, 2008

Consolidating Balance Sheet
June 30, 2008

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2008 Consolidated Totals	2007
Assets					
Current Assets					
Cash and cash equivalents	$ 22,171,340	$ 2,633,071	$ -	$ 24,804,411	$ 12,785,780
Accounts receivable	44,230,323	284,796	-	44,515,119	57,164,387
Other receivables	7,107,726	559,046	(488,423)	7,178,349	7,947,903
Assets limited as to use	2,950,000	264,028	-	3,214,028	4,161,152
Prepaid expenses and other	2,159,516	984,633	-	3,144,149	3,306,667
Inventory	3,951,254	21,741	-	3,972,995	3,654,787
Total current assets	82,570,159	4,747,315	(488,423)	86,829,051	89,020,676
Assets Limited as to Use					
By the board	66,849,496	264,028	-	67,113,524	75,408,617
Under bond indenture agreement - Held by trustee	12,205,049	-	-	12,205,049	11,773,195
Restricted	400,088	-	-	400,088	397,731
Total assets limited as to use	79,454,633	264,028	-	79,718,661	87,579,543
Less assets limited as to use that are required for current liabilities	(2,950,000)	(264,028)	-	(3,214,028)	(4,161,152)
Total noncurrent assets whose use is limited	76,504,633	-	-	76,504,633	83,418,391
Capital Assets - Net	62,988,132	897,980	-	63,886,112	60,908,696
Other Assets					-
Investment in joint venture	9,121,474	7,500	-	9,128,974	7,997,936
Investment in Hurley Health Services	4,594,113	-	(4,594,113)	-	-
Deferred reimbursement and defeasance loss	684,751	-	-	684,751	786,708
Bond issue costs	499,783	-	-	499,783	563,882
Other	-	150,000	-	150,000	150,000
Total assets	**$ 236,963,045**	**$ 5,802,795**	**$(5,082,536)**	**$ 237,683,304**	**$ 242,846,289**

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Consolidating Balance Sheet (Continued)
June 30, 2008

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2008 Consolidated Totals	2007
Liabilities and Fund Net Assets					
Current Liabilities					
Current portion of long-term debt	$ 3,025,385	$ -	$ -	$ 3,025,385	$ 4,100,878
Accounts payable and taxes withheld	16,679,666	157,018	(488,423)	16,348,261	14,738,227
Accrued expenses	44,735,588	1,051,664	-	45,787,252	34,930,776
Total current liabilities	64,440,639	1,208,682	(488,423)	65,160,898	53,769,881
Lease Obligations - Net of current portion	-	-	-	-	75,260
Long-term Debt - Net of current portion	58,946,396	-	-	58,946,396	61,694,604
Accrued Expenses	29,800,811	-	-	29,800,811	47,371,405
Total liabilities	153,187,846	1,208,682	(488,423)	153,908,105	162,911,150
Fund Net Assets					-
Invested in capital assets - Net of related debt	16,237,747	897,980	(897,980)	16,237,747	9,920,059
Donor restricted for specific operating activities	4,733,434	-	-	4,733,434	3,985,169
Unrestricted	62,804,018	3,696,133	(3,696,133)	62,804,018	66,029,911
Total liabilities and fund net assets	**$ 236,963,045**	**$ 5,802,795**	**$(5,082,536)**	**$ 237,683,304**	**$ 242,846,289**

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Hurley Medical Center

Consolidating Statement of Operations
Year Ended June 30, 2008

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2008 Consolidated Totals	2007
Operating Revenues					
Net patient service revenue	$ 338,705,709	$ 2,135,050	$ -	$ 340,840,759	$ 319,635,811
Other operating revenue	27,222,587	19,237,489	(18,448,728)	28,011,348	27,896,103
Total operating revenues	365,928,296	21,372,539	(18,448,728)	368,852,107	347,531,914
Operating Expenses					
Salaries and wages	139,054,067	14,689,788	-	153,743,855	146,378,383
Employee benefits and payroll taxes	54,772,310	2,880,223	-	57,652,533	53,908,183
Operating supplies and expenses	43,956,719	-	-	43,956,719	39,012,934
Professional services and consultant fees	36,809,780	140,450	(16,299,626)	20,650,604	19,920,766
Purchased services and other	40,370,131	4,036,860	(799,813)	43,607,178	47,911,658
Depreciation and amortization	11,467,221	89,184	-	11,556,405	11,198,120
Interest expense	4,182,612	-	-	4,182,612	4,491,718
Provision for uncollectible accounts	37,056,549	-	-	37,056,549	30,470,988
Total operating expenses	367,669,389	21,836,505	(17,099,439)	372,406,455	353,292,750
Net Operating Income (Loss)	(1,741,093)	(463,966)	(1,349,289)	(3,554,348)	(5,760,836)
Nonoperating Revenues (Expenses)					
Investment income and unrestricted donations	2,917,388	120,298	-	3,037,686	4,367,861
Management fees to HHS and joint venture income (expense)	2,289,892	-	1,349,289	3,639,181	(965,390)
Clinic purchase	-	(191,000)	-	(191,000)	-
Total nonoperating revenues (expenses)	5,207,280	(70,702)	1,349,289	6,485,867	3,402,471
Excess of Revenue Over (Under) Expenses Before Other Activity and Restricted Fund Activity and Transfer of Funds	3,466,187	(534,668)	-	2,931,519	(2,358,365)
Other					
Decrease in investment in Hurley Health Services	(534,668)	-	534,668	-	-
Assets released from restrictions for the purchase of capital assets	160,272	-	-	160,272	159,430
Excess of Revenues Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds	3,091,791	(534,668)	534,668	3,091,791	(2,198,935)
Capital Contributed Restricted Fund Activity and Transfer of Funds					
Restricted gifts and bequests	2,026,741	-	-	2,026,741	1,817,866
Income and investments	70,409	-	-	70,409	16,189
Transfer of funds to General Fund - Capital asset additions	(160,272)	-	-	(160,272)	(159,430)
Transfer of funds to General Fund - Other operating expenses	(1,188,609)	-	-	(1,188,609)	(1,212,498)
Increase (Decrease) in Fund Net Assets	3,840,060	(534,668)	534,668	3,840,060	(1,736,808)
Fund Net Assets - Beginning of year	79,935,139	51,285,781	(5,128,781)	79,935,139	81,671,947
Fund Net Assets - End of year	**$ 83,775,199**	**$ 4,594,113**	**$ (4,594,113)**	**$ 83,775,199**	**$ 79,935,139**

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

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October 8, 2008

To Board of Hospital
Managers and Management
Hurley Medical Center
Flint, Michigan

Dear Board of Hospital Managers and Management:

In planning and performing our audit of the financial statements of Hurley Medical Center as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Bank Reconciliations

During the audit, we observed the following regarding bank reconciliations:

For the main operating account, we noted un-reconciled variances for each month, involving larger differences for items such as a $1.1 million un-reconciled payroll variance to smaller items such as a $651 un-reconciled retention difference. These variances were carried forward for each month on the reconciliation, but were ultimately cleared on the June reconciliation when additional time was taken to determine their disposition, as oftentimes constraints on staff schedules prevented timely monthly reconciliations to take place. Given the fact that these variances were carried forward each month and the next month's differences were added to the reconciliation, these variances were not cleared in a timely manner and as a result, the Medical Center had an un-reconciled bank account for the entire year. The consequence of not completing these reconciliations in a timely and accurate manner (i.e. completely reconciling each month's activity before the next month) may be that unusual items will not be recognized or potentially fraudulent transactions could occur and no one would discover the errors.

Regarding the physicians billing bank account reconciliation, we noted reconciling items related to the timing of physician billing information given to the finance department. This timing difference creates a variance on the reconciliations each month with the Medical Center staff carrying forward the variance each month. We propose that the Medical Center's finance and physician billing staff take steps to better communicate with each other during the month end process to reduce or eliminate the carry forward variance from month to month.

Certain staff performing bank reconciliation functions also have access to the general ledger, which causes issues with segregation of duties between staff. In order to strengthen controls over the bank reconciliation process, the preparer of the bank reconciliation should not have access to the general ledger, cash receipts, and cash disbursement functions. We realize this is not always possible given the assigned roles and skill levels of staff within the finance staff, however, limiting access of the bank reconciliation preparer will further strengthen controls over the Medical Center's most liquid asset. Currently, only one person who performs bank reconciliation preparation has general ledger access and the finance staff is in the process of transitioning her reconciliation functions to a staff person who does not perform cash receipt or cash disbursement functions, but does have general ledger access. However, her access to the general ledger is mitigated by manager review of all recurring and nonrecurring journal entries effective June 1, 2008 (see comment further in the letter regarding review of journal entries).

Lastly, the reviewers of the bank reconciliations and statements do not typically initial or sign the reconciliations for evidence that the review procedure was performed. However, based on conversations with the bank reconciliation reviewers, it appears that reviews are being done. We recommend that bank reconciliation reviewers initial/sign off and date the completed bank reconciliations in order to provide evidence of an accurate and timely review of the reconciliations.

Observations, Comments, and Recommendations

During the audit, we also observed other matters that, while not considered significant deficiencies, should be communicated to you. Additionally, we have summarized some additional areas for board consideration. Next to each comment is the audit year the comment was first issued. Comments issued in previous years contain information updating the status of the comment through the current year, if necessary. The matters noted are only those that came to our attention and had our procedures involving internal control related matters been more extensive, other matters may have been noted.

We have already discussed many of these comments and suggestions with the various personnel of the Medical Center, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Pension Plan Funding (June 30, 2006)

The estimated amount of the employer portion of the pension plan contributions has been recorded for fiscal year 2006 and after as an expense on the books of the Medical Center; however, the actual funds have not yet been transferred to either the Flint Employee Retirement System (FERS) or the Michigan Municipal Employee Retirement System (MERS). Management is working with FERS and MERS to resolve the transfer of previous accumulated plan assets for the Medical Center's employee groups that have been approved for transfer from the FERS to the MERS plan. In the interim, however, the amount of cash owed by the Medical Center to the pension plans continues to increase. It is therefore recommended that the matter of how to fund each pension plan be resolved as quickly as possible.

Additionally, to determine the amount of employer pension expense recorded for the employees in the MERS plan, management is using a rate that was estimated by the actuary more than a year ago. The rate being used may differ from what will be required to be remitted to MERS to fund the employer portion of the plan. In order to have a more accurate estimate of the pension expense, management should work with MERS and the actuary to determine the actual contribution rate that will be required under the MERS plan.

June 30, 2008 status:

Transfers have been made to fund the employer portion of MERS. Additionally, the rate being used to fund MERS is the rate estimated by the FERS as management feels this is a better estimate than using the old MERS rate. The employer portion due to FERS has not been funded for fiscal years 2006, 2007, or 2008. Management is working with the City of Flint to have the assets for those retirees who voted to transfer to MERS transferred from FERS to MERS. Until FERS makes this transfer, management has no plans to transfer any further funds to FERS. A board-designated investment account has been established to hold the funds that the Medical Center owes to FERS.

Reimbursement Manager Job Duties (June 30, 2006)

The reimbursement manager of the Medical Center has duties outside of those duties normally assumed by a hospital reimbursement manager. In addition to the reimbursement accounting duties, the reimbursement manager of the Medical Center also is responsible for other finance areas such as review of the bank reconciliations and investment and debt accounting. We recommend that, due to the time and complexity involved in the reimbursement area, another finance staff member assume additional duties currently being performed by the reimbursement manager, leaving the reimbursement manager free to concentrate on the reimbursement duties.

June 30, 2008 status:

Effective July 1, 2008, the review of bank reconciliations, investment, and debt accounting functions, previously performed by the reimbursement manager, have been transferred to the Accounting Manager.

Capitalization Policy (June 30, 2007)

The current capitalization policy for capital assets of the Medical Center is to capitalize all equipment with a cost greater than $500, software costing more than $1,000, and construction costs greater than $2,000. Management may wish to look at updating this policy as these capitalization thresholds are rather low in comparison to the industry. Medicare allows a capitalization threshold of $5,000.

June 30, 2008 status:

Effective July 1, 2008, the capitalization policy for capital assets of the Medical Center was increased to $5,000.

Review of Nonrecurring Journal Entries (June 30, 2007)

We noted during the course of the audit that journal entries can be initiated by multiple members of the finance staff and that there is no formal procedure in place to review the journal entries posted. Many journal entries are standard monthly entries that recur from month to month, which may not require a review by a supervisor. However, there are also many non-recurring journal entries that are recorded. Although there are other mitigating controls in place, we recommend that supervisor approval be required for significant entries in order to strengthen the internal control process of posting journal entries.

June 30, 2008 status:

Effective June 1, 2008, all recurring and nonrecurring journal entries are reviewed and approved by a manager. Any unusual journal entries made by a manager are reviewed by the Controller; however, standard, nonrecurring entries made by managers are not reviewed.

Self-Insured Worker's Compensation Liability (June 30, 2008)

The Medical Center is self-insured for worker's compensation claims. The Medical Center is currently on a pay-as-you-go policy; however, under generally accepted accounting principles, it would be appropriate to book a liability for the amount of potential loss of employee claims known as of year end. Medical Center staff do not record a reserve for workers compensation claims; however, other balance sheet reserves are more than adequate to cover this liability.

Accounts Payable Cut-Off Procedures (June 30, 2008)

Invoices are recorded based upon invoice date instead of date of service. The accounting manager manually adjusts the general ledger to account for items that are recorded in the incorrect period. However, only invoices entered within approximately three weeks after year end and above a certain dollar amount are included in that manual search. During the audit process, we found several items that were reported in the wrong period. Per our request, the finance staff reviewed all invoices over a certain threshold through the month August, resulting in a journal entry to correct those expenses and move them to the correct period. We recommend that invoices be entered into the system on a date of service basis; however, if that is not possible or feasible, we recommend that the manual search performed by the accounting manager be extended through audit fieldwork and be set to a level low enough that is meaningful for financial reporting purposes.

IT General Controls (June 30, 2008)

1. **Access Review**
   Observation: A policy is in place for access review (bi-annually) and is followed for smaller systems. The Medical Center indicates that they are working on improving this process for

larger systems with an excess of 500 users.

Recommendation: Continue process improvement project for access review. Note that review should occur at least annually and reviews should be conducted by IT in conjunction with supervision or HR. Any exceptions should be clearly documented and retained for the duration of the audit.

2. Access Termination

Observation: Although a formal process is followed for access terminations whereby, IT is notified and immediately removes access, we noted that last log in date and time for terminated employees is not confirmed.

Recommendation: It is recommended that details of the termination, including confirmation of last log in date and time are reviewed and verified.

3. Segregation of Duties/Administrative Access Core Financial Applications

Observation: Observations and our inquiries indicated that individuals with full administrative access have the ability to post and have posted transactions. Application programmers also have access to the production environment and could post transaction in the core financial reporting system.

We also noted that the provided listing of individuals having application administrator privileges seemed excessive for the Medical Center.

Two individuals were also listed as having administrative privileges to both the network and core financial applications.

Recommendation: Individuals with administrative access and application programmers should not have access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised.

It is also recommended that a review of the core financial application administrators be reviewed for necessity and that administrative privileges be granted only as necessary.

It is recommended that a determination be made as to whether the two individuals noted require administrative privileges to both the network and core financial applications and what the implications would be if the privileges were removed. If there are no implications, it is recommended that administrative privileges be removed to further strengthen controls.

4. Authentication Controls – Network & Application

Network Observation: Client response indicates that authentication controls vary for the network. We were advised that the Medical Center is currently in the process of implementing active directory and approximately 60% of all staff have unique network user IDs. The Medical Center is in the process of creating unique network user IDs for the remaining staff. Best practice authentication parameters are included in the recommendation.

Application Observation: Password length is set to 1 character for the patient accounting application. Password length for other financial applications is set to 4 characters. Password complexity is not enforced. Activity is logged.

Recommendation: Continue efforts to implement active directory following best practice authentication parameters. To avoid passwords from being easily guessed, current password settings should be strengthened as follows:

a. Unique user IDs
b. Password length should be set to 7 or more characters
c. Password expiration should be set to 90 days or less
d. Password complexity should be enforced
e. Unsuccessful attempts should be set to 3 or less
f. Inactive timeout after attempts exceeded should be set to 15 minutes or more

5. Backup Procedures

Observation: We noted that backup tapes to internal backup systems are not tested, however, primary clinical and financial systems (GL, AP) are run remotely by vendors who do annual/semi-annual disaster recovery testing. During the year, we noted that there was a data loss, and the backup failed to abstract data. The Medical Center indicates that they are currently working with vendor to restore data.

Recommendation: Backup tapes should be proactively tested at least annually to ensure that an effective recovery can be made from the tapes. An unplanned recovery can replace a planned recovery test; however, this should not be the norm.

This communication is intended solely for the information and use of the board of hospital managers, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,
PLANTE & MORAN, PLLC

Robert J. Dery

Robert J. Dery, CPA